

Message Text

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FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4613
INFO ALL OECD CAPITALS
AMEMBASSY BRUSSELS

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USOECD

USEC

DEPT PASS MARAD; AMEMBASSY BRUSSELS FOR MARATT

E.O. 11652: N/A
TAGS: EWWT, OECD
SUBJECT: JAN. 16-17 MEETING OECD WORKING PARTY NO.6
OF COUNCIL ON SHIPBUILDING

REF: C/WP6/A(78)1

SUMMARY - WP MET JAN. 16-17 AND DISCUSSED UNDERSTANDING ON EXPORT CREDITS FOR SHIPS, TRENDS IN NEW ORDERS, IMPLEMENTATION OF GUIDELINES FOR GOVERNMENT POLICIES AND LONG-TERM OBJECTIVES OF WP6. FOR FIRST TIME DURING RECENT WP6 SESSIONS JAPAN TOOK OFFENSIVE AGAINST EUROPEANS CLAIMING THEY HAD NOT YET INITIATED EFFECTIVE MEASURES TO RESTRUCTURE EUROPEAN SHIPBUILDING INDUSTRY.
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SEVERAL DELS OBSERVED PRIVATELY THAT IN CONTEXT OF NEGOTIATIONS GOING ON TO IMPROVE THE "CONSENSUS" ON EXPORT CREDITS, U.S. SEEMS PREPARED TO APPLY THE TERMS OF WP6 UNDERSTANDING ON EXPORT CREDITS FOR SHIPS, EXCEPT FOR LNG VESSELS. CHARLES BARON, MARATTBRUSSELS, WAS U.S. OBSERVER.
ACTION REQUESTED: MARATT WOULD APPRECIATE GUIDANCE ON

HOW TO HANDLE QUESTIONS CONCERNING RELATIONSHIP BETWEEN U.S. POSITION IN EXPORT CREDIT CONSENSUS AND WP6 UNDERSTANDING. END SUMMARY.

1. UNDERSTANDING ON EXPORT CREDITS FOR SHIPS: APPLICATION OF CLAUSE SIX.

(A) BECAUSE OF INCREASINGLY INTENSE COMPETITION AMONG WP6 MEMBERS FOR OVERSEAS BUSINESS, ITS BEEN FELT BY SOME DELEGATIONS THAT CLAUSE SIX OF THE UNDERSTANDING ON EXPORT CREDITS HAS BEEN ABUSED IN THAT THE AID GRANT ELEMENTS OF SOME TRANSACTIONS HAVE BEEN RELATIVELY SMALL AND SOME AID RECIPIENTS, WHILE TECHNICALLY CONSIDERED "DEVELOPING COUNTRIES", HAVE SUFFICIENT FINANCIAL RESOURCES TO PURCHASE SHIPS ON NORMAL COMMERCIAL TERMS. THE DUTCH DELEGATE PROPOSED A MINIMUM TWENTY FIVE PERCENT AID GRANT ELEMENT AND REVISION OF THE PRESENT LIST OF QUALIFIED AID RECIPIENTS. FINLAND, SUPPORTED BY SWEDEN, SUGGESTED ATTACKING THE PROBLEM FROM THE OPPOSITE DIRECTION; NAMELY THROUGH AGREEMENT TO EASE NORMAL COMMERCIAL TERMS. THERE WAS DISCUSSION AS TO WHETHER OR NOT MILITARY VESSELS ARE INCLUDED IN THE UNDERSTANDING. THE U.K. DELEGATE ASSUMED SALES OF MILITARY VESSELS WERE COVERED BUT THIS WAS DISPUTED BY THE FRENCH DELEGATE. THE SECRETARIAT INDICATED THE STATUS OF MILITARY VESSELS IN THE UNDERSTANDING WAS UNCLASSIFIED

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VAGUE AND IT WAS AGREED TO LEAVE IT THAT WAY. NO AGREEMENT WAS REACHED ABOUT CHANGING CLAUSE SIX AID STANDARDS. IT WAS FELT THAT A MORE FRUITFUL DISCUSSION ON THIS SUBJECT COULD TAKE PLACE AT THE NEXT WP MEETING, AFTER A LATE FEBRUARY MEETING OF THE TRADE COMMITTEE CONSENSUS GROUP ON EXPORT CREDITS WHICH MAY BETTER INDICATE THE POSITIONS OF VARIOUS MEMBER GOVERNMENTS WITH RESPECT TO THE SUBJECT IN GENERAL. THE WORK OF THE DEVELOPMENT ASSISTANCE COMMITTEE IS ALSO TO BE CONSIDERED WITH RESPECT TO CLAUSE SIX IMPLICATIONS. THERE WAS, AT LEAST SUPERFICIALLY, GENERAL AGREEMENT NOT TO ABUSE CLAUSE SIX, WITH THE JAPANESE IN PARTICULAR NOTING THEY WOULD NEVER EXPORT SHIPS AS AID UNLESS SUCH AID WERE GENUINELY MERITED.

(B) THE SECRETARIAT PRESENTED A PAPER (CORRIGENDUM TO C/WP6(77)68) MORE CLEARLY DEFINING THE DEFINITIONS AND PROCEDURES FOR MEMBERS REPORTING TRANSACTIONS UNDER CLAUSE SIX; AT JAPANESE INSISTENCE, WP MEMBERS WERE REMINDED TO REPORT PROMPTLY AND IN DETAIL ON SUCH TRANSACTIONS. IN CONNECTION WITH THE ONGOING NEGOTIATIONS TO IMPROVE THE "CONSENSUS" ON EXPORT CREDITS, IT WAS

POINTED OUT PRIVATELY BY THE JAPANESE AND SWEDISH DELEGATES TO THE U.S. OBSERVER THAT THE UNITED STATES

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APPEARS READY TO APPLY IN THIS CONTEXT THE TERMS OF THE WP6 UNDERSTANDING ON EXPORT CREDITS FOR SHIPS, EXCEPT EXPORTS OF LNG VESSELS.
ACTION REQUESTED: GUIDANCE FOR MARATT BRUSSELS REGARDING RELATIONSHIP BETWEEN "CONSENSUS" AND WP6 UNDERSTANDING AND ANY INFORMATION REGARDING POSSIBLE EXPORT SALES OF LNG VESSELS BY U.S. YARDS IF THIS IS THE REASON FOR EXCLUSION OF THIS TYPE OF SHIP.

(C) THE DISCUSSION ON EXPORT CREDITS ENDED WITH FINLAND AND JAPAN AGAIN RAISING THE PROPRIETY OF THE RECENT ANGLO-POLISH TRANSACTION BUT THE U.K. DELEGATE INSISTED THIS TRANSACTION DID NOT BREACH THE WP6 UNDERSTANDING ON EXPORT CREDITS.

2. IMPLEMENTATION OF GENERAL GUIDELINES.

(A) MEASURES TAKEN IN MEMBER COUNTRIES TO DEAL WITH THE CRISIS.

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THE EEC DELEGATION EXPLAINED MEASURES BEING CONSIDERED WITHIN THAT ORGANIZATION DEALING WITH THE SHIPBUILDING CRISIS. SINCE THE MEASURES DISCUSSED ARE SIMPLY PROPOSALS STILL AWAITING EEC COUNCIL ENDORSEMENT, NO DOCUMENTATION WAS PRESENTED. THE MEASURES ARE A FOURTH DIRECTIVE ON AIDS TO SHIPBUILDING AND A RESTRUCTURATION PROGRAM FOR THE INDUSTRY. THE DIRECTIVE APPARENTLY DERIVES FROM EEC AUTHORITY TO LIMIT THE POSSIBILITY OF GOVERNMENT AIDS TO INDUSTRIAL SECTORS AND RELATES RESTRICTIONS ON AID TO RESTRUCTURATION COORDINATED TO REMOVE "COMPETITIVE DISTORTIONS". THE DIRECTIVE, WHICH WOULD TENTATIVELY REMAIN IN FORCE UNTIL THE END OF 1980, WOULD ALLOW SPECIAL AID TO SALVAGE PARTICULARLY DISASTROUS SITUATIONS BUT WOULD ALSO ENSURE THE RIGHT OF COMMUNITY SHIPOWNERS TO ORDER SHIPS WHEREVER THEY CHOOSE. THE INDUSTRY RESTRUCTURATION ACTION PROGRAM IS TIED TO THE AID DIRECTIVE AND WAS PRESENTED TO THE EEC COUNCIL DECEMBER 9TH. THE ACTION PROGRAM IS BASED ON THE IDEA THAT NOT ENOUGH HAS BEEN DONE AT THE NATIONAL LEVEL WITHIN THE EEC TO DEAL WITH THE CRISIS AND THUS ENVISAGES A COORDINATED EFFORT TO REDUCE SHIPBUILDING CAPACITY AND RESTRUCTURE WHAT REMAINS. IT IS ESTIMATED THAT 60,000 WORKERS WILL BE MADE REDUNDANT AND WILL HAVE TO BE RETRAINED AND REDEPLOYED. WP AGREED THAT DEMAND WILL BE STIMULATED BY COMBATTING "SUBSTANDARD" SHIPPING, FINANCE WILL BE MOBILIZED FOR INDUSTRIAL RECONVERSION, RETRAINING ETC., AND PERMANENT MACHINERY ESTABLISHED FOR INTRA-EEC CONSULTATION. THE EEC PROPOSALS WERE MET WITH HIGHLY SCEPTICAL SCRUTINY BY THE JAPANESE WHO QUESTIONED THE LEGAL AUTHORITY OF THE EEC IN SUCH MATTERS, AND INDICATED THEIR DOUBT AS TO THE REALISM OF EEC ASPIRATIONS.

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(B) THE JAPANESE ARE TAKING THE OFFENSIVE, CLAIMING JAPAN IS THE ONLY COUNTRY TO HAVE IMPLEMENTED EFFECTIVE MEASURES TO INCREASE PRICES AND REDUCE PRODUCTION. IN THIS REGARD, THE JAPANESE DELEGATE INFORMED THE WP THAT ON NOVEMBER 26 THE JAPANESE MINISTRY OF TRANSPORT ISSUED A RECOMMENDATION TO 45 JAPANESE SHIPBUILDING COMPANIES COMPRISING 95 PERCENT OF NATIONAL SHIPBUILDING CAPACITY FURTHER REDUCING MAXIMUM WORKING HOURS FOR FISCAL 1978 AND 1979. IN DECEMBER, A NEW LAW COVERING REDUNDANT WORKERS IN SHIPBUILDING AND OTHER HARD-HIT

INDUSTRIES IN JAPAN WAS PROMULGATED PROVIDING FOR ALLOCATIONS FOR RETRAINING IN ADDITION TO UNEMPLOYMENT INSURANCE. IT IS HOPED, THE JAPANESE DELEGATE NOTED, THAT THIS NEW LAW PLUS STIMULATION OF DOMESTIC DEMAND WILL EASE THE REDEPLOYMENT OF SHIPYARD LABOR. THE JAPANESE GOVERNMENT IS SERIOUSLY STUDYING POLICIES REGARDING LONG-TERM IMPLICATIONS OF THE SHIPBUILDING CRISIS AND MAY BE ABLE TO SAY MORE ABOUT THIS IN A FEW MONTHS' TIME. HE NOTED THAT TWENTY-ONE JAPANESE SHIPYARDS WENT BANKRUPT IN 1977; MOST OCCURRING AFTER SEPTEMBER AND INCLUDING LARGE, MODERN YARDS; TOTAL DEBT REACHED 625 MILLION DOLLARS. WHILE SHIPBUILDING POLICY IN JAPAN IS OBVIOUSLY POLITICALLY SENSITIVE, A SERIOUS LONG-TERM POLICY MAY CALL FOR FURTHER SCRAPPING OF YARDS. ACCORDING TO THE JAPANESE DELEGATE, JAPANESE COMPETITIVE POWER HAS BEEN SUBSTANTIALLY REDUCED DUE TO THEIR "ARTIFICIAL" PRICE-HIKING AND THE REVALUATION OF THE YEN. SOME EUROPEAN YARDS, IT WAS

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CLAIMED, HAVE ALREADY UNDERBID JAPANESE YARDS FOR ORDERS IN DEVELOPING COUNTRIES. IT WAS CATEGORICALLY STATED THAT THE JAPANESE GOVERNMENT WOULD NEVER

INTRODUCE SUBSIDY MEASURES, AND THAT THE JAPANESE GOVERNMENT WAS BECOMING INCREASINGLY IRRITATED BY THE RESURGENCE OF SUBSIDIES BY EUROPEAN GOVERNMENTS AND EVEN MORE CONCERNED ABOUT THEIR INACTION ON REDUCING PRODUCTIVE CAPACITY. WHILE SEVERAL EUROPEAN DELEGATES RAISED TECHNICAL QUESTIONS CONCERNING THE JAPANESE PRESENTATION, SWEDEN AND NORWAY WERE THE ONLY COUNTRIES TO SERIOUSLY COUNTER THE JAPANESE ATTACK BY DESCRIBING WHAT INITIATIVES HAD BEEN TAKEN OR ARE BEING PROPOSED IN THEIR COUNTRIES FOR REDUCING CAPACITY.

3. LONG-TERM OBJECTIVES.

THE SECRETARIAT PRESENTED AN UNNUMBERED WORKING DOCUMENT AS THE BASIS FOR DISCUSSING FUTURE WORK OF
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WP6 AND COMMENTARY ON SAME FOR INCLUSION IN THE ANNUAL REPORT TO THE OECD COUNCIL. SINCE THE DOCUMENT WAS PRESENTED DURING THE MEETING, DISCUSSION WAS CONFINED TO GENERALIZED PRELIMINARY COMMENTS, MAINLY ON THE NEED TO CONTINUE INFORMATION EXCHANGES ON SUPPLY AND DEMAND, DOUBTS ABOUT THE REALISM OF ATTEMPTING TO PROJECT SUPPLY-DEMAND STATISTICS, GENERAL AGREEMENT THAT "EXCEPTIONAL MEASURES", I.E., INCREASED OR NEW SUBSIDIES, SHOULD BE OF A TEMPORARY NATURE, ETC. THERE WAS FIRM AGREEMENT HOWEVER, THAT WITH REGARD TO ESTABLISHING CONTACT WITH NON-OECD SHIPBUILDING COUNTRIES, THAT SUCH CONTACT WOULD BE IMPOLITIC EXCEPT ON A BILATERAL BASIS AND THAT MEMBER COUNTRIES SHOULD, AS A MATTER OF COURSE REPORT TO WP NO.6 ON INFORMATION GLEANED THEREFROM. IN THIS CONNECTION, THE JAPANESE DELEGATE HAD, HE STATED, NOTHING RELEVANT TO REPORT ON THE NOVEMBER 1977 MEETING OF ASIAN AND PACIFIC REGION SHIPBUILDING EXPERTS IN TOKYO WHICH WAS REPORTEDLY SIMPLY FOR EXCHANGE OF INFORMATION AMONG TECHNICAL EXPERTS.

4. THE NEXT MEETING OF THE WORKING PARTY IS SCHEDULED FOR MARCH 14-15.

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